Chapter V

Non-Banking Financial Companies

Non-banking financial companies (NBFCs) have been the subject of focussed attention during the nineties. In particular, the rapid growth of NBFCs, especially in the nineties, has led to a gradual blurring of dividing lines between banks and NBFCs, with the exception of the exclusive privilege that commercial banks exercise in the issuance of cheques (Chart V.1). Simplified sanction procedures, orientation towards customers, attractive rates of return on deposits and flexibility and timeliness in meeting the credit needs of specified sectors (like equipment leasing and hire purchase), are some of the factors enhancing the attractiveness of this sector. The total regulated deposits[1] of NBFCs aggregated Rs.17,390 crore, as at end of March 1994, equivalent to 4.0 per cent of bank deposits. The quantum of regulated deposits grew more than three-fold and as at end-March 1997, at Rs.53,116 crore constituted 7.9 per cent of bank deposits.

5.2 In the year 1998, a new concept of public deposits meaning deposits received from public including shareholders in the case of public limited companies and unsecured debentures/ bonds other than those issued to companies, banks and financial institutions, was introduced for the purpose of focussed supervision of NBFCs accepting such deposits. The amount of such public deposits held by NBFCs, which as at end of March 1998 was Rs.23,820 crore, declined to Rs.19,341 crore as at end of March 2000.

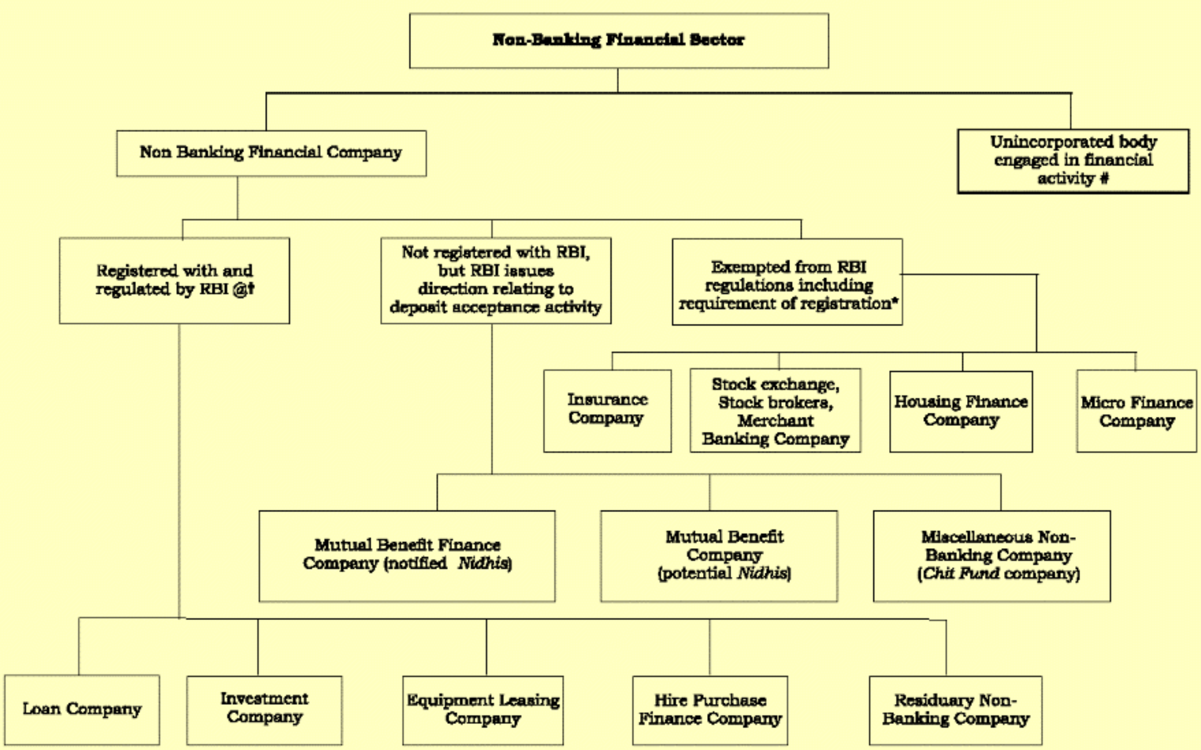
5.3 Owing to certain disquieting developments in the NBFC sector, the RBI Act was amended in 1997, providing for a comprehensive regulatory framework for NBFCs. The RBI (Amendment) Act, 1997 provides for compulsory registration with the Reserve Bank of all NBFCs, irrespective of their holding of public deposits, for commencing and carrying on business, minimum entry point norms, maintenance of a portion of deposits in liquid assets, creation of Reserve Fund and transfer of 20 per cent of profit after tax annually to the Fund. The Amendment Act also conferred powers on Reserve Bank to issue directions to companies and its auditors, prohibit deposit acceptance and alienation of assets by companies and effect winding up of companies.

5.4 Accordingly, the Reserve Bank issued directions to companies on acceptance of public deposits, prudential norms like capital adequacy, income recognition, asset classification, provision for bad and doubtful debts, exposure norms and other measures to monitor the financial solvency and reporting by NBFCs. Directions were also issued to auditors to report non-compliance with the RBI Act and regulations to the Reserve Bank, Board of Directors and shareholders.

1. Registration of NBFCs

5.5 The registration is compulsory for all NBFCs, irrespective of their holding of public deposits. The types of NBFCs regulated by the Reserve Bank are indicated in Table V.1. The amended Act, which introduced comprehensive changes in Chapter III-B, III-C and V, provides for an entry point norm of Rs.25 lakh as the minimum net owned fund (NOF). Subsequently, for new NBFCs seeking registration with the Reserve Bank to commence business on or after April 21, 1999, the requirement of minimum level of NOF was revised upwards to Rs.2 crore. No NBFC can commence or carry on business of a financial institution including acceptance of public deposit without obtaining a Certificate of Registration (CoR) from the Reserve Bank.

Chart V.1: Components of the Non-Banking Financial Sector



\# Unincorporated bodies can not receive deposits except from relatives as specified in section 45-S of the Reserve Bank of India Act and such institutions as specified under section 45 I(66)(iv) of the Act, if such bodies are engaged wholly or partly in any of the activity specified in clause (c) of section 45(I) of the Act, or its principal business is that of receiving deposits or lending in any manner.

@ Primary Dealers are registered with Reserve Bank of India (RBI) and regulated by RBI as such, irrespective of whether they accept public deposits or not.

* As they are regulated by other regulatory authorities.

† NBFCs who accept public deposits are subject to a regulatory frame work prescribed for the purpose.

Table V.1: Non-Banking Financial Entities Regulated by Reserve Bank

Non-Banking Financial Companies		Principal Business
I.	Non-Banking Financial Company	In terms of the Section 45-I(f) read with Section 45-I(c) of the RBI Act, 1934, as amended in 1997, their principal business is that of receiving deposits or that of a financial institution, such as lending, investment in securities, hire purchase finance or equipment leasing.
	Equipment leasing company (EL)	Equipment leasing or financing of such activity.
	Hire purchase finance company (HP)	Hire purchase transaction or financing of such transactions.
	Investment company (IC)	Acquisition of securities and trading in such securities to earn a profit.
	Loan company (LC)	Providing finance by making loans or advances, or otherwise for any activity other than its own; excludes EL/HP/Housing Finance Companies (HFCs).
	Residuary non-banking company (RNBC)	Company which receives deposits under any scheme or arrangement, by whatever name called, in one lump-sum or in instalments by way of contributions or subscriptions or by sale of units or certificates or other instruments, or in any manner. These companies do not belong to any of the categories as stated above.
II.	Mutual benefit financial company (MBFC) i.e. *Nidhi* Company	Any company which is notified by the Central Government under Section 620A of the Companies Act1956 (1 of 1956).
III.	Mutual Benefit Company (MBC), i.e., potential *Nidhi* company	A company which is working on the lines of a *Nidhi*company. However, it has not yet been so declared bythe Central Government, has minimum NOF of Rs.10 lakh, has applied to the Reserve Bank for CoR and also to Department of Company Affairs (DCA) for declaration as *nidhi* company and has not contravened direction/ regulation of Reserve Bank/DCA
IV.	Miscellaneous non-banking company(MNBC), i.e., *Chit Fund* Company	Managing, conducting or supervising as a promoter, foreman or agent of any transaction or arrangement bywhich the company enters into an agreement with aspecified number of subscribers that every one of them shall subscribe a certain sum in instalments over a definite period and that every one of such subscribers shall in turn, as determined by lot or by auction or by tender or in such manner as may be provided for in the arrangement, be entitled to the prize amount

5.6 The Reserve Bank received applications for CoR from 36,505 NBFCs, of which, 13,815 applications were approved and 18,355 were rejected, as at end-August 2001. Out of the total approvals of 13,815 applications, only 776 companies have been permitted to accept public deposits.

2. Supervision of NBFCs

5.7 The supervisory framework for NBFCs is based on three criteria, viz., (a) the size of NBFC, (b) the type of activity performed, and (c) the acceptance or otherwise of public deposits. Towards this end, a four-pronged supervisory strategy comprising (a) on-site inspection based on CAMELS (capital, assets, management, earnings, liquidity, systems and procedures) methodology, (b) computerised off-site surveillance through periodic control returns, (c) an effective market intelligence network, and (d) a system of submission of exception reports by auditors of NBFCs, has been put in place. The regulation and supervision is comprehensive for companies accepting or holding public deposits to ensure protection of interests of depositors.

5.8 Companies holding or accepting public deposits are required to comply with all the directions on acceptance of public deposits, prudential norms and liquid assets, and should submit periodic returns to the Reserve Bank. They are supervised using all the supervisory tools indicated above.

5.9 Companies not holding or accepting public deposits are regulated and supervised in a limited manner. They are required to comply only with prudential norms relating to income recognition, accounting standards, asset classification and provisioning against bad and doubtful debts. They are less frequently inspected. Such companies are presently not required to submit any returns to the Reserve Bank. Thus, market intelligence and auditors' exception reports constitute the important supervisory tools in respect of these companies.

3. Policy Developments Relating to NBFCs

(a) NBFCs Registered and Regulated by Reserve Bank

Monetary and Credit Policy Statements

5.10 The Mid-Term Review of Monetary and Credit Policy for the year 2000-01 announced in October 2000 and the Monetary and Credit Policy for 2001-02 announced in April 2001 fine-tuned the policy environment governing NBFCs. Policy changes, *inter alia*, included changes in interest rate on public deposits and introduction of asset-liability management system for certain categories of NBFCs. A half-yearly Financial Stability Review using Macroprudential Indicators (MPI) data as relevant for NBFCs was also prepared. The chronology of major policy developments is presented in the Annexure.

Reduction in Interest Rate on Deposits

5.11 Effective from April 1, 2001, taking into account the market conditions and changes in other interest rates in the financial system, the maximum rate of interest that NBFCs can pay on their public deposits was reduced from 16 per cent to 14 per cent per annum. The ceiling on interest rate on the deposits accepted by Miscellaneous Non-Banking Companies (*Chit Fund* companies) and Mutual Benefit Financial Companies (*Nidhi* companies) was also brought down to 14 per cent. Effective November 1, 2001, the ceiling on rate of interest has been further brought down to 12.5 per cent.

Issuance of Commercial Paper by NBFCs

5.12 On October 10, 2000, the Reserve Bank issued guidelines for issue of commercial paper by companies, *inter alia*, exempting money received by NBFCs by issue of commercial paper (CP) in accordance with this guidelines, from the purview of public deposits.

Asset Liability Management (ALM) System for NBFCs

5.13 The Reserve Bank announced ALM guidelines for NBFCs for effective risk management. All NBFCs with asset size of Rs.100 crore or above or with public deposits of Rs.20 crore or above, as per their balance sheet as on March 31, 2001, were instructed to have ALM systems in place. These NBFCs were advised to constitute an ALM Committee, under the charge of Chief Executive Officer or other Senior Executive and other specialist members, for formalising ALM systems. The number of companies likely to be covered by the guidelines is about 70 and they account for 75-80 per cent of total public deposits held by reporting NBFCs. The ALM system is required to be implemented by NBFCs by March 31, 2002. In the case of NBFCs holding public deposits of Rs.20 crore or above, the first ALM return, comprising of statements on structural liquidity, short-term dynamic liquidity and interest rate sensitivity, as on September 30, 2002, should be submitted to the Reserve Bank by October 31, 2002. NBFCs not holding public deposits, but having asset size of Rs.100 crore or above would be advised of the supervisory framework in due course of time. The companies have been advised to conduct trial runs during the half-year ending September 30, 2001 and half-year beginning October 1, 2001, and report operational difficulties in implementing the system for rectification. The *Chit Fund*s and *Nidhi* companies have, for the present, been kept out of the purview of these guidelines. NBFCs not qualifying presently have also been advised to put in place an ALM system, as it is the endeavour of the Reserve Bank to extend these guidelines to all NBFCs in future.

Rationalisation of the Requirement of Introduction for Depositors of NBFCs

5.14 To rationalise requirements of introduction for depositors stipulated earlier in June 2000, it was clarified that requirement of introduction was for purpose of identification of depositors, so that deposits are not made in fictitious names. NBFCs were advised to obtain and keep on record copies of identification of depositors, *viz.*, passport, ration card, election identity card, identification by an existing depositor, as proof of identity of the prospective depositors.

Entry of NBFCs into Insurance Business

5.15 Consequent upon issue of final guidelines for entry of NBFCs into insurance business in June 2000, the Reserve Bank permitted five NBFCs to undertake insurance business as joint venture participants in insurance companies. Of these, while two NBFCs were granted permission to undertake both life and general insurance business, three NBFCs were permitted to undertake only life insurance business with risk participation. One company was permitted both to engage in insurance agency business as well as to make strategic investment in equity of insurance company upto 10 per cent of its owned fund. Another company was granted permission to conduct only insurance agency business while a third company could only make strategic investment in equity of insurance company.

Rationalisation of Returns Submitted by NBFCs

5.16 In order to improve the reporting of supervisory information and facilitate electronic processing, the formats of all returns prescribed in terms of Directions issued under RBI Act, submitted by the NBFCs and *Chit Fund* companies at quarterly, half-yearly and annual intervals were rationalised. Such a step was also necessitated by the twin concerns of the Reserve Bank to take expeditious steps, wherever necessary, as also to intensify off-site monitoring procedure of the deposit-taking/ holding NBFCs. A monthly return on repayment of deposits was prescribed for NBFCs holding public deposits, whose applications for CoR under Section 45-IA of RBI Act, 1934 were rejected or CoR was cancelled, if it was granted earlier.

Focus on Large NBFCs with Public Deposit exceeding Rs. 20 crore

5.17 For addressing supervisory concerns and for picking up early warning signals of deterioration in financial health of companies (especially those holding a substantial quantum of public deposits), the quarterly return for compiling monetary aggregates, calling for information on asset-liability position from NBFCs holding public deposits of Rs.20 crore and above, was expanded to include certain critical supervisory information. The return prescribes companies to furnish information on net owned fund, public deposits, NPA position, credit rating, cash flow, certain key ratios, etc. This is expected to enable closer monitoring of large NBFCs holding public deposits of Rs.20 crore and above.

Residuary Non-Banking Companies (RNBCs)

5.18 RNBCs are a class of NBFCs which cannot be classified as equipment leasing, hire purchase, loan, investment, *nidhi* or *chit fund* companies, but which tap public savings by operating various deposit schemes, akin to recurring deposit schemes of banks. The deposit acceptance activities of these companies are governed by the provisions of Residuary Non-Banking Companies (Reserve Bank) Directions, 1987. These directions include provisions relating to the minimum (not less than 12 months) and maximum period (not exceeding 84 months) of deposits, prohibition from forfeiture of any part of the deposit or interest payable thereon, disclosure requirements in the application forms and the advertisements soliciting deposits and periodical returns and information to be furnished to the Reserve Bank.

5.19 In the absence of any linkage of deposits to their NOF, to safeguard the depositors' interests, these companies have been directed to invest not less than 80 per cent of aggregate deposit liabilities as per the investment pattern prescribed by the Reserve Bank, and to entrust these securities to a public sector bank to be withdrawn only for repayment of depositors. Subject to compliance with the investment pattern, they can invest 20 per cent of aggregate liabilities or ten times its net owned fund, whichever is lower, in a manner decided by its Board of Directors.

5.20 The RNBCs are the only class of NBFCs which are enjoined to pay a minimum rate of interest on their deposits. The floor rate of interest for deposits are specified by the Reserve Bank in terms of RNBC Directions, 1987. There is no upper limit prescribed for RNBCs unlike other NBFCs, which can pay any rate of interest subject to the maximum ceiling prescribed by the Reserve Bank. The floor interest rate payable by RNBCs was revised downwards from 6 per cent to 4 per cent per annum (to be compounded annually) on daily deposit schemes and from 8 per cent to 6 per cent per annum (to be compounded annually) on other deposit schemes of higher duration or term deposits. The provisions of prudential norms were extended to RNBCs, under the provisions of the NBFC Prudential Norms (RB) Directions, 1998 and compliance with prudential norms is mandatory and a prerequisite for acceptance of deposits.

5.21 Monitoring and inspection of these companies, from time to time, revealed continuance of many unsatisfactory features like non-compliance with the core provisions of the Directions, forfeiture of the depositors' money on one pretext or the other, diversion of depositors' money to associate concerns and/or investment in illiquid assets, violation of investment requirements/pattern, etc., thus jeopardising the interests of depositors. The Reserve Bank was issuing prohibitory orders on a case-by-case basis restraining erring RNBCs from accepting deposits. Some of the ingenious promoters floated new companies and started accepting deposits through new entities or shifted their area of operations to other States. The requirement of compulsory registration before commencing business of RNBC and concerted action taken against such companies has curbed such practices to a large extent.

5.22 The Reserve Bank received 106 applications for Certificate of Registration (CoR) from NBFCs which were functioning as RNBCs by accepting deposits under some scheme or arrangement. While 12 companies subsequently converted themselves to NBFCs, applications of 84 companies have been rejected. Ten NBFCs are still functioning as RNBCs, the total deposits of which amounted to nearly Rs. 11,000 crore, constituting about 57.0 per cent of the total deposits of all reporting NBFCs.

(b) NBFCs not Registered with the Reserve Bank

Mutual Benefit Companies

5.23 Mutual Benefit financial companies (*Nidhis*) are NBFCs notified under Section 620A of the Companies Act, 1956 and primarily regulated by Department of Company Affairs (DCA) under the directions / guidelines issued by them under Section 637 A of the Companies Act, 1956. These companies are exempt from the core provisions of the RBI Act *viz.*, requirement of compulsory registration, maintenance of liquid assets and transfer of profits to Reserve Fund. These companies are also exempted from the core provisions of NBFC directions relating to acceptance of public deposits. Directions relating to ceiling on interest rate, maintenance of register of deposits, furnishing receipt to depositors and submission of returns to Reserve Bank are however applicable to these companies.

5.24 The Government of India constituted an Expert Committee in March 2000 (Chairman: Shri P.Sabanayagam) to examine various aspects of the functioning of the *Nidhi* companies and suggest an appropriate policy framework for overall improvement of these companies. This was done with a view to facilitate their healthy functioning and restore the confidence of the investing public. The salient features of the recommendations of the Committee are detailed in Box V.1.

Miscellaneous Non-Banking Companies (MNBCs)

5.25 MNBCs are mainly engaged in the *Chit Fund* business. The term 'deposit' as defined under Section 45 I(bb) of the Reserve Bank of India Act, 1934 does not include subscription to *Chit Funds*. The *Chit Fund* companies have been exempted from all the core provisions of Chapter IIIB of the RBI Act including registration. In terms of Miscellaneous Non-Banking Companies (RB) Directions, the companies can accept deposits upto 25 per cent and 15 per cent of the NOF from public and shareholders, respectively, for a period of 6 months to 36 months, but cannot accept deposits repayable on demand/notice.

5.26 The Reserve Bank only regulates the deposits accepted by these companies, but it does not regulate their *Chit Fund* business, which is administered by the respective State Governments through the offices of Registrars of Chits. The *Chit Funds* Act, 1982 was enacted as a Central Act for ensuring uniformity in the provisions applicable to *Chit Fund* institutions throughout the country, and all State Governments are required to frame rules for extending the provisions of this Act to their respective jurisdictions. At present, 16 States and 6 Union Territories have adopted the Central Act and the Reserve Bank is pursuing with the State Governments of Andhra Pradesh, Arunachal Pradesh, Gujarat, Haryana, Kerala, Maharashtra, Mizoram and Nagaland for early formulation of rules under the Central Act[2] .

Box V.1: Recommendations of the Expert Committee on *Nidhis*

The Expert Committee on *Nidhis*, comprising members from the Government as well as the Reserve Bank, submitted its Report to the Government on September 28, 2000. The Committee observed that although *Nidhis* essentially operate on the principle of 'mutual benefit' (i.e., they accept deposits only from members and lend only to members), given the large number of failures in this sector, the regulatory framework governing such companies should be on the same lines as that applicable to NBFCs, without stifling the basic principle on which they are formed or disturbing their local character. Accordingly, the regulatory framework for such companies recommended by the Committee encompassed entry point barriers, minimum capital funds, debt-equity ratio, liquid asset requirements, restrictions on dividend, ceiling on interest rates on deposits and loans, regulations of various managerial aspects, disclosure norms, prudential norms, adequate supervisory framework, role of auditors and other measures for protection of depositors' interests.

The statutory regulatory framework for *Nidhis* suggested by the Committee encompass the following stipulations:

I. Entry Point Norms

(i) Entry point barriers of minimum members of 500 and minimum capital fund of Rs.10 lakh,
(ii) Use of '*Nidhi*' as part of the name of the company to distinguish between a NBFC and a *Nidhi* company, restrictions on opening branches by *Nidhi* companies,
(iii) Regulation over issue of equity and preference share capital,

II. Prudential Norms

(iv) Prudential norms on income recognition, asset classification, credit concentration, provisioning for bad and doubtful debts,

(v) Restrictions over voting rights and other managerial aspects including remuneration and loans to Directors, norms for conduct of affairs of the Board of Directors, prohibition of grant of loans to Directors, etc.

(vi) Sectoral exposure ceilings for aggregate loans against each type of collateral security,

III. Regulatory Stipulations

(vii) Ceiling on interest rates on deposits and loans,
(viii) Minimum and maximum period of deposits,
(ix) Advertisement and disclosure norms for deposit acceptance, (x) Net owned fund to deposit ratio of 1:20,
(xi) Liquid asset requirements of not less than 10 per cent of deposits,
(xii) Adequate reporting system and supervisory framework, submission of quarterly and other periodical returns by the *Nidhis* to the regulatory authority after certification by the auditor,

(xiii) Appointment of auditors by the company out of the three names suggested by the regulatory authority,

IV. Other Measures

(xiv) Dividend not to exceed 25 per cent per annum, subject to transfer of equivalent amount to the Reserve Fund,
(xv) Penal provisions for various violations, and,
(xvi) Other depositors' protection measures like contingency fund, insurance cover, if possible.

At present, *Nidhi*s are governed under the provisions of the Companies Act in force. However, the Reserve Bank is also empowered to issue directions in matters relating to deposit acceptance activities. The Committee, therefore, suggested that the dual regulatory control over *Nidhis* should be done away with and that the sole responsibility for regulating and supervising of *Nidhis* could be under the DCA, Government of India and the Reserve Bank could tender advice from time to time. The Report is presently under consideration of the Government.

4. Implementation of Recommendations of Task Force on NBFCs (1998)

Financial Companies Regulation Bill, 2000

5.27 The Task Force constituted by Government of India (Chairman: Shri C.M. Vasudev) to review the regulatory and supervisory framework for NBFCs and unincorporated bodies and address the shortcomings in dealing with the investors' complaints submitted its report on October 28, 1998. The recommendations, which have since been accepted by the Government, can be stratified into four broad strands, according to their status of implementation, *viz.*, recommendations which (a) were implemented with immediate effect (on December 18, 1998) by modifying the existing notification/Directions; (b) required statutory amendments, (c) required amendments to the Directions under the RBI Act, and (d) needed to be implemented over a period of time through administrative action. The Government of India framed the Financial Companies Regulation Bill, 2000 to implement the recommendations requiring statutory changes, as also consolidate the law relating to NBFCs and unincorporated bodies with a view to ensure depositor protection, (Box V.2).

State Acts for Protection of Interests of Depositors

5.28 The Task Force on NBFCs had recommended that State Governments should be empowered to initiate penal action against those NBFCs which function illegally or accept public deposits without any authorisation. It emphasized that such legislation should be expeditiously enacted. As a move towards this process, Tamil Nadu Protection of Interests Depositors (in Financial Establishments) Act, 1997, which contains penal provisions for promoters of financial establishments defaulting on repayment of deposits and interest payments, and for attachment of assets of defaulters to ensure payment to depositors was passed. It also provides for setting up of special Courts to which the pending cases against financial companies could be transferred. The Reserve Bank also advised State Governments / Union Territories to enact such legislations. Eleven State Governments / Union Territories have since taken substantial steps in this regard.

Box V.2: Financial Companies Regulation Bill, 2000

The Government of India framed a new legislation to amend and consolidate the provisions contained in Chapter III-B, III-C and V of the RBI Act, 1934 relating to the regulation and supervision of financial companies, hitherto known as non-banking financial companies (NBFCs). This included prohibition of acceptance of deposits by unincorporated bodies and incorporating the recommendations of the Task Force on NBFCs, which had made certain recommendations to this effect. The salient features of the proposed legislation, which are materially different from the corresponding provisions of RBI Act or are new provisions are as follows:

I. Basic Stipulations

(i) The draft bill has been named as 'Financial Companies Regulations Bill, 2000'. All the NBFCs will be known as Financial Companies instead of NBFCs.

(ii) The term 'public deposit' has been defined in the Bill for the first time and the definition would mean the same as at present in the NBFC Directions.

(iii) There would be a nine member Advisory Council for Financial Companies under the Chairmanship of Deputy Governor, drawing on members from the representatives of Associations of Financial Companies and other experts in related areas to advise the Reserve Bank.

(iv) NBFCs holding /accepting public deposits would be prohibited from carrying on any non-financial business without the prior approval of the Reserve Bank and the non-financial business presently carried on by them would have to be wound up or transferred to a subsidiary within three years. Any other business or fee-based activity like insurance agency business, portfolio management, etc., would require prior approval of the Reserve Bank.

II .Entry Point Norms

(v) The requirement of obtaining the CoR from the Reserve Bank would be compulsory for all financial companies, irrespective of whether the companies accept public deposits or not. However, the non-public deposit taking financial companies would require minimum owned fund of Rs.25 lakh, whereas the public deposit taking financial companies would require minimum net owned fund (NOF) of Rs.2 crore and a specific authorisation from the Reserve Bank to accept public deposits.

(vi) There would be powers with the Reserve Bank to (a) prescribe different capital for different classes of financial companies, (b) raise the requirement of minimum owned fund (entry norm) from Rs.25 lakh to Rs.200 crore for new financial companies not accepting public deposits, (c) raise the minimum NOF (entry norm) from the present ceiling of Rs.2 crore to Rs.10 crore in the case of new financial companies intending to accept public deposits, and (d) raise the minimum NOF from the present level of Rs.25 lakh to Rs.2 crore for the existing financial companies accepting public deposits. However, sufficient time would be allowed to such financial companies to attain the enhanced capital requirement.

(vii) The requirement of creation of reserve fund would be applicable only to the financial companies accepting public deposits, as against the earlier requirement applicable to all NBFCs.

(viii) Unsecured depositors would have first charge on liquid assets and assets created out of the deployment of the part of the reserve fund.

(ix) The financial companies would require prior approval of the Reserve Bank for any change in the name, change in the management or change in the location of the registered office.

(x) Any sale of property in violation of order for prohibition from alienation of any property or assets would be void and that such order could be extended by the Reserve Bank in tranches of one year each on each occasion upto a period of five years.

III Regulatory and Supervisory Issues

(xi) The Reserve Bank would be empowered to appoint Special Officer(s) on a delinquent financial company and a duty has been cast on such company to cooperate with such Special Officer(s).

(xii) The Company Law Board (CLB) would continue to be authority to adjudicate the claims of depositors against the delinquent companies with powers to order initial payment of a part of deposit, attach assets of fraudulent financial company and appoint Recovery Officer(s) for management of such asset. The financial company would have no recourse to the CLB to seek deferment of the depositors' dues.

(xiii) The prohibitory provisions for unincorporated bodies would continue in the Financial Companies Regulations Bill, but the role of exercising the powers for enforcement of these provisions have been exclusively entrusted to State Governments, in addition to the powers under the respective State Laws for protecting the interests of investors in financial establishments.

(xiv) There would be powers vested in the District Magistrates to call for information and to proceed against delinquent unincorporated bodies.

(xv) There would be a ban on the issue of advertisement for soliciting deposits by all unincorporated bodies, irrespective of whether they are conducting financial business or not.

(xvi) Unauthorised deposit-taking by companies (a) whose applications for Certificate of Registration have been rejected, (b) whose registration has been cancelled, (c) who have been prohibited from accepting public deposits would be a cognisable offence. The same would be the case for unregistered financial companies as well as unincorporated bodies.

(xvii) Powers would be vested with a police officer of the rank not below that of the Superintendent of Police of any State to order investigations into the alleged violations of requirement of registration by financial companies and prohibition from acceptance of deposits by unincorporated bodies.

(xviii) Penalties have been rationalised in accordance with the severity of defaults, with the objective that the penalty should serve as a deterrent to others.

The Bill has been introduced in the Parliament in 2000 and has since been referred to the Standing Committee on Finance.

5. Business of the NBFC Sector

5.29 The broad profile of the NBFC sector for 1998-99 and 1999-2000, based on the regulatory returns submitted by deposit holding/accepting companies is presented in Table V.2. In view of the difference in the number of reporting companies in the two years, the data are not strictly comparable. As at end-March 1999, the total outstanding public deposits of the 1,547 deposit holding companies (both registered and unregistered) aggregated Rs.20,429 crore, equivalent to 2.6 per cent of the outstanding deposits (Rs.7,71,129 crore) of scheduled commercial banks (excluding Regional Rural Banks). In the case of 1,005 reporting companies, as at end-March 2000, the total quantum of outstanding public deposits reported by them was Rs.19,342 crore, equivalent to 2.2 per cent of the aggregate deposits (Rs.8,96,696 crore) of scheduled commercial banks.

Table V.2: Profile of the NBFC Sector
(As at end-March)

(Amount in Rs. crore)

Item	**1999**		**2000**	
	NBFCs	***of which* RNBCs**	**NBFCs**	***of which* RNBCs**
1	2	3	4	5
Number of reporti ng companies	**1,547**	11	**1,005**	9
Total Assets	**47,048.50**	**11,080.50**	**51,324.26**	**11,317.31**
Public Deposits	20,428.93	10,644.27	19,341.72	11,003.77

		(52.1)		(56.9)
Net Owned Funds	9,118.27	-666.39	6,222.89	-442.82

Notes: 1. Figures are provisional.
2. Figures in brackets indicate percentages to total outstanding deposits of NBFCs.

5.30 The aggregate assets of the NBFC sector increased to Rs.51,324 crore as on March 31, 2000, from Rs.47,049 crore, as on March 31, 1999.

5.31 The break-up of public deposits within the different categories of NBFCs is provided in Table V.3. Some of the companies have converted themselves into non deposit-holding companies by repaying the deposits held by them. At the disaggregated level, public deposits with the hire purchase companies and RNBCs increased by 22.3 per cent and 3.4 per cent, respectively (Chart V.2).

6. Region-wise Composition of Deposits held by NBFCs

5.32 The region-wise analysis is based on the number of deposit-holding/accepting NBFCs that reported data to the Reserve Bank for the years ending March 1999 and March 2000 (Table V.4 and Chart V.3). The NBFCs based in the southern region continued to account for a significant share of the reporting NBFCs in both years although their share fell sharply from 23.7 per cent of total public deposits at end-March 1999, to 16.4 per cent at end-March 2000. Of the NBFCs located in the southern region, the major quantum of public deposits was held by the NBFCs located in Chennai. The deposits of NBFCs located in the western region declined from 14.0 per cent at end-March 1999 to 12.6 per cent at end-March 2000. The share of deposits of the NBFCs based in the northern region to the total deposits of all NBFCs, recorded an increase from 2.4 per cent at March 1999 to 2.7 per cent at March 2000, mainly due to an increase in the share of public deposits held in New Delhi. The share of deposits in the eastern region increased from 37.7 per cent of total deposits to 49.5 per cent mainly on account of mobilisation of non-convertible debentures (NCDs) to the tune of Rs. 1,668 crore by one Government-owned NBFC based in West Bengal. The public deposits reported by NBFCs in four metropolitan centres of Mumbai, New Delhi, Kolkata and Chennai accounted for Rs.14,403 crore (70.5 per cent) and Rs.14,920 crore (77.1 per cent), respectively, of the total deposits for the years ending March 1999 and March 2000.

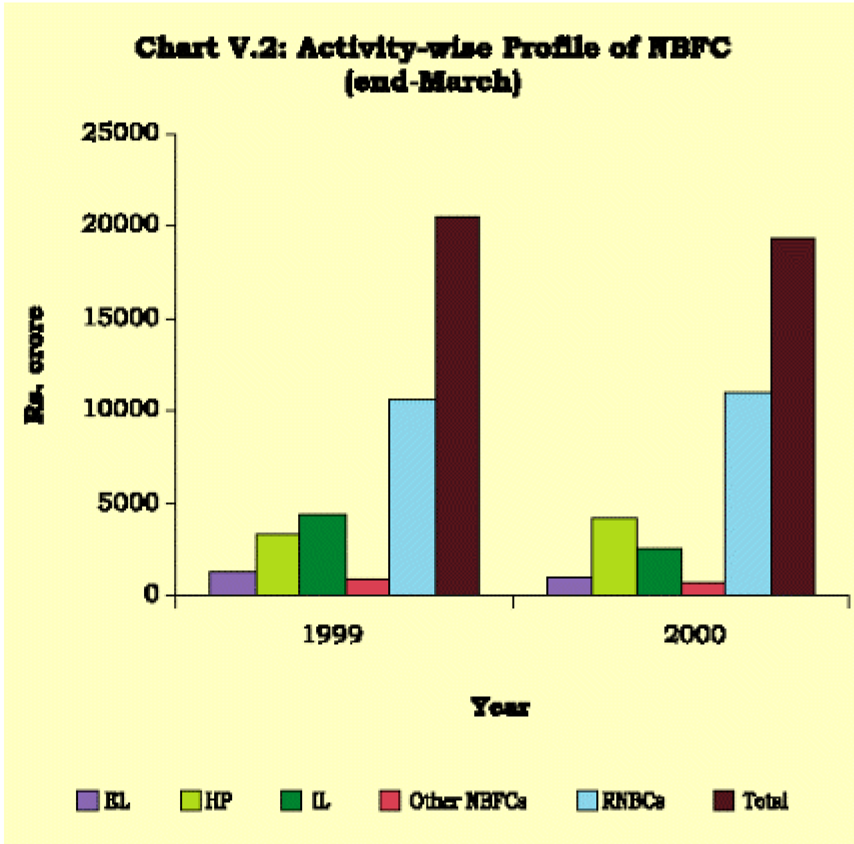


Table V.3 : Activity–wise Profile of Public Deposits of NBFCs
(As at end-March)

(Amount in Rs. crore)

Nature of Business	Public Deposits		Percentage Variation Col. (3) over Col. (2)
	1999	2000	
1	2	3	4
1. Equipment Leasing (EL)	1,172. 91 (5.7)	1,021.20 (5.2)	-12.9
2. Hire Purchase (HP)	3,339.78 (16.3)	4,083.54 (21.2)	22.3
3. Investment and Loan (IL)	4,455.80 (21.8)	2,517.46 (13.0)	-43.5
4. RNBCs	10,644.27 (47.8)	11,003.77 (56.9)	3.4
5. Other NBFCs*	816.17 (4.0)	715.75 (3.7)	-12.3
Total	**20,428.93** **(100.0)**	**19,341.72** **(100.0)**	**-5.3**

* includes Miscellaneous Non-Banking Companies, unregistered and unnotified *Nidhis* etc.
Note: Figures in brackets indicate percentages to total.

7. Interest Rate and Maturity Pattern of Deposits with NBFCs

5.33 The maturity-wise analysis of deposits held by NBFCs together with the interest rate range on the deposits is presented in Table V.5 and Table V.6.

5.34 The broad trends indicate that NBFCs (other than RNBCs) had outstanding public deposits of Rs.9,785 crore as at end-March 1999, which declined to Rs. 8,338 crore by end-March 2000. The decline of Rs.1,447 crore (14.8 per cent) in public deposits was observed in 1-2 year, 2-3 year and 3-5 year maturities. However, the quantum of public deposits in the maturity bucket exceeding 5 years witnessed a significant jump, from Rs.168 crore at end-March 1999 to Rs.1,718 crore by end-March 2000. This is mainly due to mobilisation of non-convertible debentures (NCDs) to the tune of Rs. 1,668 crore by one Government-owned NBFC based in West Bengal. In 1999, around 90 per cent of the deposits were in the maturity bucket of 1-5 years, while as at end-March 2000, most deposits were in the maturity bucket '1-2 years', '2-3 years' and 'exceeding 5 years'; the last category comprising over one-fifth of the public deposits as at end-March 2000.

5.35 Interest rate-wise, there was a rise in the quantum and percentage of deposits in the interest rate range of 12-14 per cent. The deposits in this range increased from Rs. 2,337 crore (23.9 per cent) in 1999 to Rs. 3,702 crore (44.4 per cent) (Chart V.4). Deposits with interest rates of over 16 per cent declined from Rs. 3,645 crore to Rs. 1,144 crore, over the year.

8. Asset Profile of NBFCs

5.36 The information on the asset profile of NBFCs (excluding RNBCs) based on reporting companies reveals that out of 1,536 companies, 30 NBFCs with an asset size exceeding Rs.50 crore accounted for 92 per cent of the total assets. By end-March 2000, the number of such companies increased to 66 and these accounted for 91 per cent of the total assets of NBFC sector (Table V.7). Perceptible reduction in the number of small companies was evidenced during the year 2000. The number of companies in the asset range of Rs.25 lakh to Rs.10 crore declined from 1,442 in 1999 to 840 companies in 2000.

Table V.4: Region-wise break-up of Public Deposits held by Registered and Unregistered NBFCs
(As at end-March)

(Amount in Rs. crore)

Region	1999						2000					
	Public Deposits						Public Deposits					
	NBFCs						NBFCs					
	No.	Amount	Per cent	*of which* **RNBCs**			No	Amount	Per cent	*of which* **RNBCs**		
				No	Amount	Per cent				No.	Amount	Per cent
1	2	3	4	5	6	7	8	9	10	11	12	13
Northern	204	484.07	2.4	-	-	-	251	529.04	2.7	-	-	-
North-Eastern	30	0.89	Neg.	-	-	-	4	7.02	Neg.	1	5.55	0.1
Eastern	64	7,711.91	37.7	5	7,068.26	66.4	32	9,573.05	49.5	6	7,506.62	68.2
Central	244	4,533.94	22.2	4	3,574.73	33.6	124	3,623.41	18.7	2	3,491.64	31.7
Western	180	2,851.08	14.0	1	0.27	Neg.	86	2,441.17	12.6	-	-	-
Southern	825	4,847.04	23.7	1	1.01	Neg.	508	3,168.07	16.4	-	-	-

Total	**1,547**	**20,428.93**	**100.0**	**11**	**10,644.27**	**100.0**	**1,005**	**19,341.76**	**100.0**	**9**	**11,003.81**	**100.0**
Memorandum Items:												
Mumbai	123	2,405.04	11.8	-	-	-	68	2,381.21	12.3	-	-	-
Chennai	408	3,843.13	18.8	-	-	-	340	2,577.56	13.3	-	-	-
Kolkata	38	7,702.53	37.7	5	7,068.26	66.4	28	9,508.53	49.2	5	7,446.67	67.5
New Delhi	90	452.17	2.2	-	-	-	122	452.65	2.3	-	-	-

Neg.- Negligible

Table V.5: Maturity Pattern of Deposits held by NBFCs @
(As at end-March)

(Amount in Rs. crore)

Maturity Period	**Amount of Deposits**		**Variation of Col. 2 over Col.3**	
	1999	**2000**	**Amount**	**Per cent**
1	2	3	4	5
Less than 1 year	1,694.59	1,323.45	-371.14	-21.9
	(17.3)	(15.9)		
1-2 years	2,904.34	1,615.94	-1,288.40	-44.4
	(29.7)	(19.4)		
2-3 years	2,895.80	2,462.48	-433.32	-15.0
	(29.6)	(29.5)		
3-5 years	2,122.16	1,218.45	-903.71	-42.6
	(21.7)	(14.6)		
5 years and above	167.77	1,717.63	1,549.86	923.8
	(1.7)	(20.6)		
Total	9,784.66	8,337.95	-1,446.71	-14.8
	(100.0)	(100.0)		

@ On the basis of residual maturity of outstanding deposits (excluding RNBCs).

Table V.6: Distribution of NBFC Deposits according to Rate of Interest @
(As at end-March)

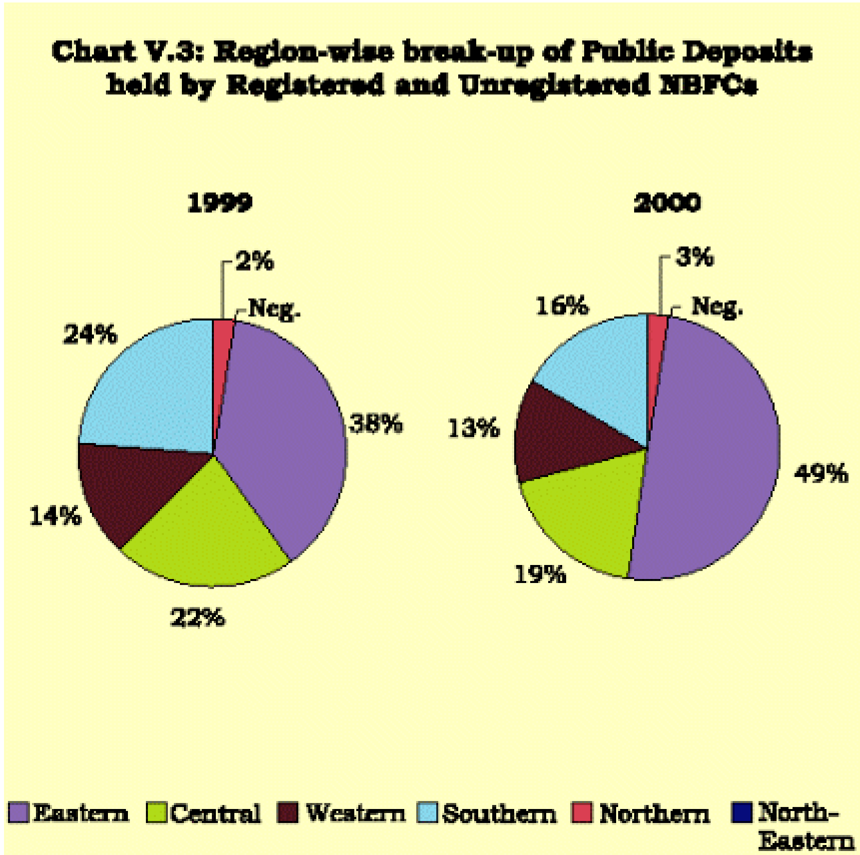
(Amount in Rs. crore)

Interest Range (per cent)	**Amount of deposits**		**Per cent to total deposits**	
	1999	**2000**	**1999**	**2000**
1	2	3	4	5
Upto10	52.38	22.96	0.5	0.3
10-12	87.49	588.50	0.9	7.1
12-14	2,336.67	3,702.08	23.9	44.4
14-16	3,662.74	2,880.79	37.4	34.6
More than16	3,645.38	1,143.62	37.3	13.6
Total	9,784.66	8,337.95	100.0	100.0

@ Excluding RNBCs.

9. Distribution of Assets of NBFCs according to Activity

5.37 The major portion of the assets of NBFCs (excluding RNBCs) are in the form of hire purchase and equipment leasing assets. These two portfolios constituted 42.9 per cent of the total assets of NBFCs as at end-March 2000. The loans and inter-corporate deposit (ICD) portfolios accounted for 26.4 per cent of the assets of the NBFCs (Table V.8).



10. Analysis of Borrowings by NBFCs

5.38 The borrowings by NBFCs (excluding RNBCs) for the years ended March 1999 and 2000 are presented in Table V.9. As evident from the Table, total borrowings registered a marginal decline of 0.8 per cent, the decline is more pronounced in inter-corporate borrowings (40.1 per cent), money raised through convertible bonds or secured debentures (16.3 per cent) and borrowings from financial institutions (10.4 per cent). Money raised through commercial paper increased from Rs.465 crore to Rs.554 crore and borrowings through other sources increased from Rs. 4,130 crore to Rs. 6,480 crore (Chart V.5).

11. Net Owned Funds of NBFCs

5.39 Net owned fund (NOF) of NBFCs is the aggregate of paid-up capital and free reserves, netted by (i) the amount of accumulated balance of loss, (ii) deferred revenue expenditure and other intangible assets, if any, and further reduced by investments in shares and loans and advances to (a) subsidiaries, (b) companies in the same group and (c) other NBFCs, in excess of 10 per cent of owned fund.

5.40 The data on NOF of NBFCs for the years 1999 and 2000 presented in Table V.10, reveals that the number of companies having NOF upto Rs. 25 lakh have declined from 736 as at end-March 1999 to 205 as at end-March 2000. This reduction, to an extent, is reflected in the decline of number of reporting companies by 540 during the same period.

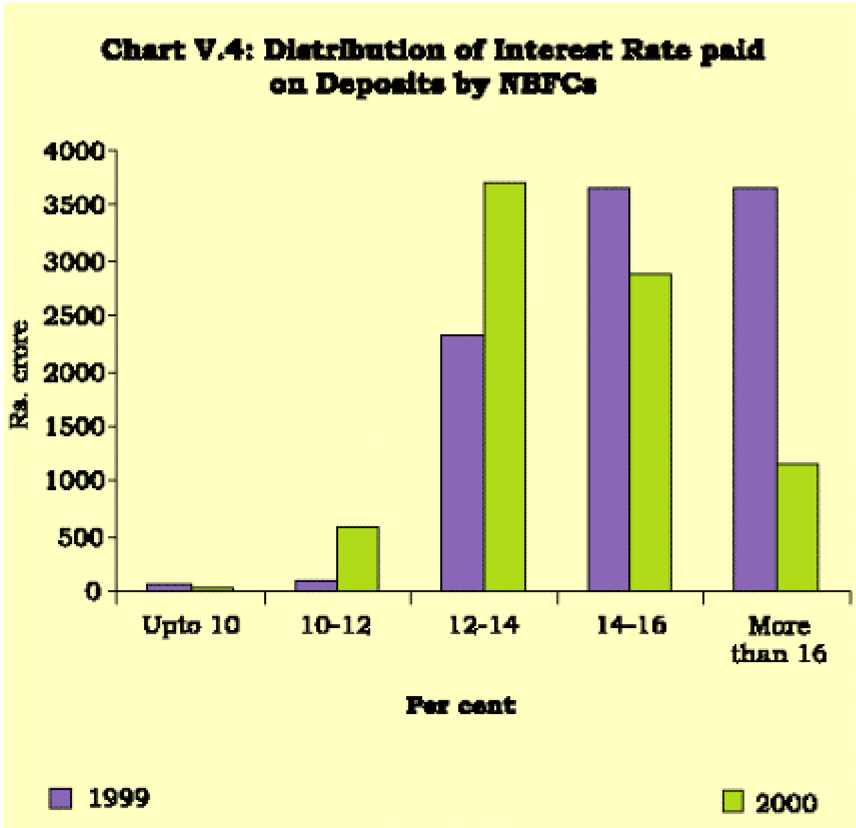
Table V.7: Asset Profile of NBFCs*
(As at end-March)

Range of Assets (Rs. crore)	No. of reporting companies		Assets (Rs. crore)		Percentage Variation of Col.
	1999	2000	1999	2000	
1	2	3	4	5	6
1. Less than 0.25	736	82	30.15	7.86	-73.9
2. 0.25 - 0.50	319	95	49.15	36.36	-26.0
3. 0.50 - 2	332	397	307.41	434.32	41.3
4. 2 - 10	55	266	961.49	1,142.02	18.8
5. 10 - 50	64	90	1,701.31	1,921.11	12.9
6. 50 - 100	11	16	1,709.95	1,114.35	-34.8
7. 100 - 500	18	28	8,122.76	7,825.22	-3.7
8. Above 500	1	22	23,085.78	27,525.71	19.2
Total	**1,536**	**996**	**35,968.00**	**40,006.95**	**11.2**

* The 996 reporting NBFCs (excluding RNBCs) have been regrouped on the basis of their asset size as on end-March1999 and end-March 2000.

12. Income Expenditure Statement of NBFCs

5.41 The profitability analysis of the NBFCs indicates that the net profits of these institutions registered an increase during the year 1999-2000. While income witnessed a decline of 0.6 per cent, largely due to a drop in fund-based income, the decline in expenditure was more pronounced, with the result that the net profits of NBFCs increased by 14.2 per cent from Rs.120 crore in 1998-99 to Rs.137 crore in 1999-2000. The fee-based income of the reporting NBFCs has registered an increase of Rs. 213 crore (Table V.11).



13. Capital Adequacy Ratio

5.42 The capital adequacy norms were made applicable to NBFCs in 1998. The norms relating to capital adequacy ratio (CAR) stipulate that every NBFC shall maintain a minimum capital ratio consisting of tier I and tier II capital that shall not be less than (a) 10 per cent on or before March 31, 1998; and (b) 12 per cent on or before March 31, 1999, of its aggregate risk-weighted assets and of risk-adjusted value of off-balance sheet items. The total of tier II capital, at any point of time, shall not exceed 100 per cent of tier I capital. Table V.12 presents CAR of the reporting companies for the years ended March 1999 and March 2000, respectively.

14. Other Developments

Role of BFS in Monitoring NBFCs

5.43 Considering the manifold growth of the non-banking financial companies in the early nineties and with a view to having an integrated approach to the entire financial sector, the supervision of NBFC sector was brought under the jurisdiction of the Board for Financial Supervision (BFS) with effect from July 1, 1995. Since then, the BFS has been serving as an important supervisory body for direction, formulation and overseeing the implementation of policy as well as supervision of NBFCs. Approval of BFS is obtained before any important policy change and amendments in the regulatory framework of NBFCs are carried out. BFS also serves as an important forum for deciding the course of action against problem companies and monitoring their status on an on-going basis. In addition to information notes on specific companies, quarterly reports on the status of large, weak and problem companies are discussed in BFS meetings. Furthermore, half-yearly reports on the performance of the NBFC sector are also put up for information of BFS.

Table V.8: Activity-wise Distribution of Assets of NBFCs @
(As at end-March)

Activity	**Amount in Rs.crore**		**Per cent**	
	1999	**2000**	**1999**	**2000**
1	2	3	4	5
Loans & ICD	2,158.11	10,561.35	6.0	26.4
Investments	4,352.13	5,578.65	12.1	13.9
Hire Purchase	13,128.29	12,016.79	36.5	30.0
Equipment & Leasing	3,165.18	5,146.70	8.8	12.9
Bills	1,095.56	1,280.09	3.0	3.2
Other assets	12,068.73	5,423.37	33.6	13.6
Total	**35,968.00**	**40,006.95**	**100.0**	**100.0**

@ excluding RNBCs.
The share under Loans & ICD has increased because of appropriate classification of assets in 2000, which were earlier booked under the head 'Other Assets'.

Table V.9: Classification of Borrowings by NBFCs (excluding RNBCs)
(As at end-March)

(Amount in Rs. crore)

Item	**1999**	**2000**
1	2	3
Money borrowed from Central/State Government @	2,739.59	2,603.60
	(12.1)	(11.6)
Money borrowed from foreign sources*	624.18	601.32
	(2.8)	(2.7)
Inter-corporate borrowings	3,076.48	1,842.74
	(13.6)	[8.2)
Money raised by issue of convertible or secured debentures,	4,001.78	3,348.82
Including those subscribed by banks	(17.7)	(14.9)
Borrowings from banks	6,038.10	5,632.77
	(26.7)	(25.1)
Borrowings from Financial Institutions	1,544.76	1,384.47
	(6.8)	(6.1)
Commercial Paper	465.23	554.42
	(2.1)	(2.5)
Others #	4,130.47	6,480.24
	(18.3)	(28.9)
Total	**22,620.59**	**22,448.38**
	(100.0)	**(100.0)**

@ Mainly by State-Government owned companies.
* The amount received from foreign collaborators as well as from institutional investors (Asian Development Bank,
International Finance Corporation, etc.). The major amount is in infrastructure and leasing companies.

Includes security deposits from employees and caution money, allotment money, borrowings from mutual funds, Directors, etc.

Note:Figures in brackets are percentages to total.

Table V.10: Net Owned Funds *vis-à-vis* Public Deposits of NBFCs @
(As at end-March)

(Amount in Rs. crore)

Range of NOF Amounts	1999				2000			
	No. of reporting companies	Net Owned Fund	Public Deposits	Public Deposits as multiple of NOF	No. of reporting companies	Net Owned Fund	Public Deposits	Public Deposits as multiple of NOF
1	2	3	4	5	6	7	8	9
Upto 0.25	736	38.08	650.22	17.1	205	-215.15	394.78	-1.8
0.25 - 0.50	319	70.43	115.51	1.6	360	116.17	194.20	1.7
0.50 - 5.0	332	442.74	1,067.55	2.4	314	501.98	362.86	0.7
5 - 10	55	336.37	264.71	0.8	43	294.12	202.13	0.7
10 - 50	64	1,285.08	2,107.15	1.6	46	1,060.24	2,773.16	2.6
50 - 100	11	786.99	1,271.05	1.6	9	628.40	877.58	1.4
100 - 500	18	3,946.07	4,286.73	1.1	19	4,279.95	3,533.24	0.8
Above 1,000	1	1,120.83	21.74	0.02	-	-	-	-
Total	**1,536**	**8,026.59**	**9,784.66**	**1.2**	**996**	**6,665.71**	**8,337.95**	**1.3**

@ Excluding RNBCs.

Note : There were no reporting companies with NOF of above Rs. 1,000 crore as at end-March 2000

Table V.11: Financial Performance of NBFCs*

(Amount in Rs. crore)

Item	1998-99	1999-2000	Variation of Col. (3) over Col. (2)	
1	2	3	4	5
			Absolute	Percentage
A.Income (i+ii)	**6,809**	**6,770**	**-39**	**-0.6**
i) Fund	6,551	6,299	-252	-3.8
ii) Fee	258	471	213	82.6
B.Expenditure (I+ii+iii)	**6,416**	**6,363**	**-53**	**-0.8**
i) Financial	4,355	3,687	-668	-15.3
ii) Operating	1,077	1,614	537	49.9
iii) Other	984	1,062	78	7.9
C.Tax Provisions	**273**	**270**	**-3**	**-1.1**
D.Net Profit	**120**	**137**	**17**	**14.2**
E.Total Assets	**35,968**	**40,007**	**4,039**	**11.2**
F.Financial Ratios @				
i) Income	18.9	16.9	-2.0	-
ii) Fund Income	18.2	15.7	-2.5	-
iii) Fee Income	0.7	1.2	0.5	-
iv) Expenditure	17.8	15.9	-1.9	-
v) Financial Expenditure	12.1	9.2	-2.9	-
vi) Operating Expenditure	3.0	4.0	1.0	-
vii) Other Expenditure	2.7	2.7	-0.1	-

viii)Tax Provisions	0.8	0.7	-0.1	-
ix) Net Profit	0.3	0.3	0.0	-

* excluding RNBCs.

@ Ratios to Total Assets

Close Monitoring of Errant NBFCs

5.44 The Reserve Bank continued to keep close surveillance on large NBFCs, particularly those which had difficulties in honouring commitments to depositors and against whom Company Law Board (CLB) had issued orders for repayment of deposits. The implementation of CLB orders is being monitored by Regional Co-ordination Committees formed at Chennai, Kolkata, New Delhi and Mumbai with representatives from Department of Company Affairs and Economic Offences Wing of State Governments.

Institutionalised Decision-making Mechanism

5.45 The Informal Advisory Group for NBFCs constituted by the Reserve Bank in January 1998 consists of representatives from the Institute of Chartered Accountants of India, national level Associations of NBFCs, chief executive officers of two large NBFCs, besides the Reserve Bank. The Group meets at quarterly intervals to deliberate on regulatory issues relating to NBFCs for aiding decision-making process, and serves as a useful institutionalised framework for periodical consultation with various associations of NBFCs. The term of the Group has been extended to June 2002.

Developmental Aspects

5.46 The NBFCs are widely dispersed across the country and their managements exhibit varied degrees of professionalism. Furthermore, the depositors have varied degrees of perceptions regarding safety of their deposits while making an investment decision. Therefore, a need was felt for educating the depositors about the regulations of NBFCs, the personnel of NBFCs and their auditors about their obligation to the regulator and the personnel of enforcement bodies like police and State Government departments about their role in curbing unscrupulous activities. The Task Force on NBFCs had also suggested that the State Governments should be increasingly involved in curbing the illegal and unauthorised deposit taking activities of the NBFCs and unincorporated bodies engaged in the financial business. The Reserve Bank also received requests from a number of State Governments for conducting seminars/programmes for their civil and police officials on various aspects of legal and supervisory issues pertaining to NBFCs. Accordingly, the Reserve Bank has organised focussed training programmes/ seminars/workshops for personnel of NBFCs and enforcement agencies.

Table V.12: Distribution of Reporting NBFCs by CRAR

(As at end-March)

CRAR	**1999**					**2000**				
Range (per cent)	**EL**	**HP**	**LC/IC**	**RNBC**	**Total**	**EL**	**HP**	**LC/IC**	**RNBC**	**Total**
1	2	3	4	5	6	7	8	9	10	11

Less than 10	11	33	39	1	**84**	7	11	12	2	**32**
10-12	1	1	2	-	**4**	-	-	1	-	**1**
12-15	1	7	10	-	**18**	1	3	3	-	**7**
15-20	7	27	15	1	**50**	3	31	8	-	**42**
20-30	10	71	37	-	**118**	12	52	16	1	**81**
Above 30	27	144	230	2	**403**	23	253	159	1	**436**
Total	**57**	**283**	**333**	**4**	**677**	**46**	**350**	**199**	**4**	**599**

Publicity Campaign for NBFC Depositors

5.47 The elaborate publicity campaign for educating depositors through advertisements which began in July 1998 continued through the year. The campaign has since been fine-tuned with a three-pronged strategy comprising advertisements in print media, spots on electronic media and informal publicity through seminars and press meets elucidating the steps taken for ensuring protection of depositors' interests.

Committee for Redesigning Balance Sheet Format for NBFCs

5.48 The Committee for Redesigning of Financial Statements of Non-Banking Financial Companies (Chairman: Shri V.S.N.Murty), submitted its Report in September 1999. It recommended revised formats for balance sheets which essentially follows the existing formats prescribed under the Companies Act, with additional disclosures in respect of maturity profile of assets and liabilities, sector-wise concentration of assets and liabilities, details in respect of overdue loans and other credits, non-performing assets and provisioning thereagainst, valuation of investments, etc., as schedules to the main balance sheet as well as the formats for these additional schedules. Two salient recommendations of the Committee *viz.*, uniform accounting year ending on March 31, and constitution of audit committees for NBFCs having asset size of Rs.50 crore and above have been implemented. Other recommendations of the Committee are under the consideration of the Reserve Bank.

Asset Securitisation

5.49 The Government of India constituted an Expert Committee (Chairman: Shri T.R. Andhyarujina) for the purpose of formulating specific proposals to give effect to the suggestions made by the Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) relating to changes needed in the legal framework. The Committee submitted its Report in February 2000. As a follow up, the Government of India constituted a Working Group (Chairman: Shri S.H. Bhojani, with Shri M.R.Umarji as a member from the Reseve Bank) on asset securitisation in July 2000 to examine the Expert Committee's recommendations for implementation. The Working Group has drafted a Bill on asset securitisation and submitted the same to the Government.

Foreclosure Laws

5.50 The Government of India constituted a Working Group (Chairman: Shri M.R. Umarji) in July 2000 to examine the recommendations of the Andhyarujina Expert Working Group on Foreclosure Laws regarding vesting of powers with banks and financial institutions for taking possession and sale of securities without the intervention of the courts and to draft a bill for consideration of the Government. The Working Group submitted its report to the Government along with the draft Bill in May 2001.

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[1] Regulated deposits are defined as receipt of money by way of deposit or loan or in any other form excluding amounts received as share capital, bank borrowings, institutional borrowings, chit subscription, borrowings from registered money lenders and money received in ordinary course of business; further excluding certain other forms of deposits as specified in Non-Banking Financial Companies (Reserve Bank) Directions, 1977 like money received from Central or State Governments, foreign Government, financial institutions, companies and certain other forms of deposits.

[2] As regards plantation companies, the Securities and Exchange Board of India (SEBI) is entrusted with the responsibility of regulating the resource-taking activities of these companies. Accordingly, SEBI has implemented a regulatory framework in terms of which no new plantation scheme can be floated without credit rating and minimum requirement of paid up capital. The SEBI (Collective Investment Schemes) Regulations, 1999 were notified in October 1999. As prescribed in the regulations, no person other than a Collective Investment Management Company, which had obtained a CoR from SEBI under the SEBI (Collective Investment Schemes) Regulations, 1999 would be entitled to carry on or sponsor or launch a collective investment scheme. Also, no company engaged in the business of collective investment scheme can launch any new scheme or raise money from investors even under existing schemes, unless a CoR is granted to it under the aforesaid regulations. The Securities Laws (Second Amendment) Act, 1999 inserted a new section 11 AA in the SEBI Act, 1992. In February 2000, the SEBI (Collective Investment Schemes) Amendment Regulations, 2000 were notified in the Gazette of India.